FINANCIAL INSTITUTIONS

Company Rating:	BBB-
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
11/05/16	BBB-	Stable

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RATIONALE

TRIS Rating affirms the company rating on S11 Group PLC (S11) at "BBB-" with a "stable" outlook. The rating reflects the high profits the company earns from high-yield hire purchase loans for motorcycles. The rating also takes into consideration the size of S11's capital base.

The key rating concern is the high and rising level of bad debts. Liquidity remains adequate. However, near-term repayment obligations could raise liquidity risk. External factors, such as intense competition and the fact that the target customers are highly sensitive to changes in economic conditions, also constrain the rating.

KEY RATING CONSIDERATIONS

Profitability will stay strong

TRIS Rating expects S11's profitability will remain strong despite a slight drop in 2017. Net income in 2017 decreased to Bt395 million, dropping 6.2% from 2016. The decline was mainly due to additional loan loss reserve in preparation for the new accounting standards. The return on average assets (ROAA) fell to 8.5% in 2017 from 10.6% in 2016, but was higher than other non-bank financial institutions that we rate. We forecast ROAA to range from 6%-8% annually in 2018-2020.

Net income for the first three months of 2018 was Bt112 million, 10.2% higher year-on-year. Interest income rose because the portfolio expanded. We forecast net profit to grow moderately in 2018, despite higher losses on the sale of repossessed motorcycles. Net interest income will rise as the loan expansion continues to grow.

Weak asset quality

The rating is based on our expectation that asset quality, while remaining weak, will hold at an acceptable level. The quality of the loan portfolio is lower than peers and has declined steadily. We believe this reflects the weaker credit profile of the company's target customers. The non-performing loan (NPL) ratio (loans more than 90 days past due divided by total loans) has risen steadily, climbing to 11.59% at the end of March 2018 from 6.33% at the end of 2013. We forecast the NPL ratio will remain below 15% over the next few years.

S11's reserve coverage is comparable to direct peers. Loan loss reserves to NPLs were 111.8% at the end of March 2018. We expect the coverage ratio to remain at a similar level over the next three years. This forecast is based on the assumption that the credit cost or provision expenses to average total loans will hold at about 7% through 2020.

Capital base remains appropriate

S11's capital level is appropriate considering the high credit risk of the motorcycle hire purchase business. The ratio of shareholders' equity to total assets has exceeded 40.0% for the past three years. The ratio rose slightly to 42.3% at the end of March 2018, from 41.8% at the end of 2017.

The debt to equity (D/E) ratio has stayed below 1.5 times over the past three years. At the end of March 2018, the D/E ratio was 1.4 times. Profits have

gradually boosted retained earnings and kept the D/E ratio steady.

Moderate liquidity with high short-term debt obligations

We expect S11's liquidity position to remain moderate over the next few years. As of March 2018, the one-year asset-liability duration gap was positive. Loan repayments from customers will be about Bt3,000 million while the company's loan repayment obligations will be approximately Bt1,800 million over the next 12 months. S11 had around Bt1,300 million in credit facilities at the end of March 2018. The credit facilities add extra liquidity on top of the expected cash inflows from customer loan repayments. The ability to obtain additional credit facilities from more diversified sources would be a positive factor for the rating.

S11 has high short-term debt obligations compared with peers. At the end of March 2018, short-term borrowings, including the current portion of long-term borrowings, increased steadily to 68.8% of total borrowings, up from 49.4% at the end of 2016. Liquid assets (excluding credit lines from financial institutions) are adequate compared with short-term borrowings. However, liquidity risk would rise if short-term obligations increase.

RATING OUTLOOK

The "stable" outlook is based on our expectation that S11 will maintain its market position, satisfactory financial performance, acceptable asset quality, and moderate level of leverage.

RATING SENSITIVITIES

The rating and/or outlook upside hinges on S11's ability to expand, improve asset quality, and maintain a financial profile that features high profitability and a solid capital base. The rating and/or outlook could be revised downward should asset quality deteriorate. A drop in asset quality would affect profitability, leverage, or raise refinancing risk.

COMPANY OVERVIEW

S11 was established in 2011. The company initially offered motorcycle hire purchase loans in Bangkok and the vicinity, and then expanded to provinces in the Central and Eastern regions of the country.

In 2015, S11 was listed on the Stock Exchange of Thailand (SET). The proceeds from the initial public offering (IPO) gave S11 a new route to the capital market and enabled S11 to expand its loan portfolio. Currently, S11's major shareholders are S Charter Co., Ltd. (98% held by the Chiradamrong family, the co-founder of S11), holding 28.4% of the company's shares, and foreign strategic investors, holding 32.0%.

S11 has steadily expanded to provincial areas, especially in provinces in the Eastern region of Thailand. The value of S11's loan portfolio has climbed steadily, rising from Bt618 million in 2011 to Bt5,242 million in 2017, a compound annual growth rate (CAGR) of 42.8%. At the end of March 2018, the value of the outstanding loans grew by 4.7% year-to-date to Bt5,488 million. Nearly all (99%) of the outstanding loans are hire purchase loans for new motorcycles; the remainder are hire purchase loans for used motorcycles.

KEY OPERTING PERFORMANCE

Chart 1: Outstanding Loans
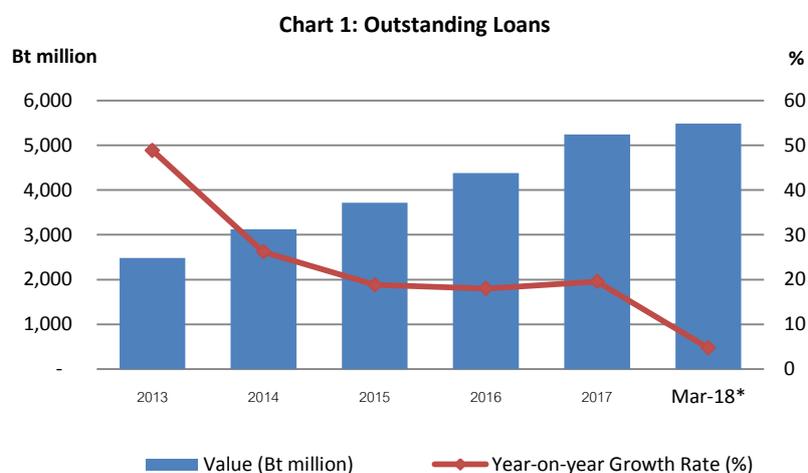
Source: S11
* Year-to-date growth for Mar-18

Chart 2: Asset Quality
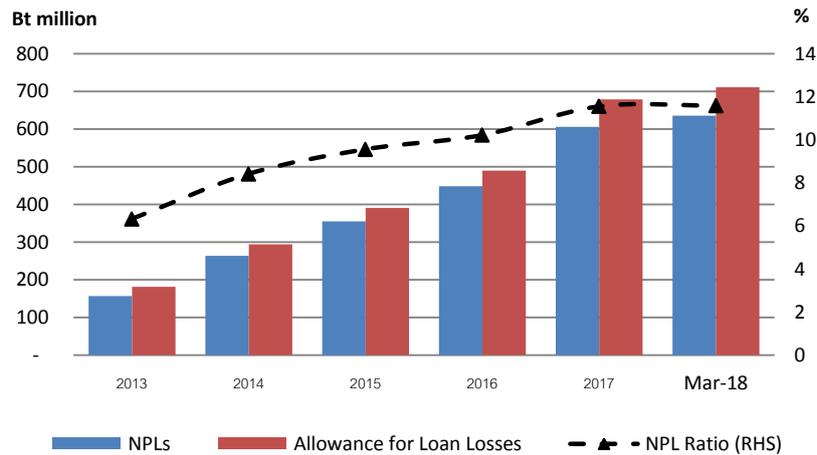
Source: S11

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Jan-Mar 2018	2017	2016	2015	2014
		-------------- Year Ended 31 December -----------			
Total assets	5,223	5,017	4,283	3,644	3,100
Total loans	5,488	5,242	4,384	3,715	3,128
Allowance for doubtful accounts	711	679	490	391	294
Short-term borrowings	1,889	1,824	1,103	1,411	1,155
Long-term borrowings	856	919	1,129	391	803
Shareholders' equity	2,208	2,096	1,909	1,720	1,054
Net interest income	343	1,254	1,088	931	749
Bad debts and doubtful accounts	92	368	256	205	210
Non-interest income	20	72	102	66	47
Operating expenses	131	464	408	352	319
Net income	112	395	421	353	213

*   *Consolidated financial statements*

	Jan-Mar 2018	-------------- Year Ended 31 December ---------			
		2017	2016	2015	2014
Profitability					
Net-interest income/average assets	26.83 **	26.97	27.45	27.62	26.64
Net-interest income/total income	87.32	87.17	83.05	82.07	80.21
Operating expenses/total income	33.27	32.27	31.12	30.99	34.17
Operating profit/average assets	10.97 **	10.62	13.29	13.08	9.46
Return on average assets	8.78 **	8.50	10.63	10.47	7.57
Return on average equity	20.88 **	19.74	23.23	25.45	22.48
Asset Quality					
Non-performing loans/total loans	11.59	11.56	10.22	9.57	8.43
Bad debts and doubtful accounts/average loans	6.89 **	7.64	6.32	5.98	7.51
Allowance for doubtful accounts/total loans	12.96	12.95	11.17	10.53	9.40
Allowance for doubtful accounts/non-performing loans	111.82	112.04	109.29	110.02	111.53
Capitalization					
Shareholders' equity/total assets	42.27	41.77	44.56	47.20	34.00
Shareholders' equity/total loans	40.23	39.98	43.53	46.29	33.70
Debt to equity (time)	1.37	1.39	1.24	1.12	1.94
Liquidity					
Short-term borrowings/total liabilities	62.66	62.45	46.45	73.37	56.46
Total loans/total assets	105.07	104.49	102.35	101.97	100.89

*   Consolidated financial statements
**   Annualized

S 11 Group PLC (S11)

Company Rating:	BBB-
Rating Outlook:	Stable